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APR 18 2008

COUNCILMEMBER
 DONNA FRYE

April 16, 2008

Councilmember Donna Frye
 City of San Diego
 202 C Street
 San Diego, CA 92101

Re: Changes to the City of San Diego's 2005 Summary of Net Assets in the 2006 comprehensive Annual Financial Report (CAFR)

Dear Councilmember Frye:

This letter is in response to your memorandum dated April 1, 2008 on the above named topic. In the City of San Diego's 2006 Comprehensive Annual Financial Report (CAFR), certain beginning balances within net asset amounts were recorded as follows:

	<u>2005 column in 2006 CAFR</u>	<u>2005 column in 2005 CAFR</u>	<u>Variance</u>
Invested in Capital assets net of related debt	\$ 6,341,905	\$ 6,464,125	\$ (122,220)
Restricted	434,415	279,237	155,178
Unrestricted	23,266	56,224	(32,958)
Total	<u>\$ 6,799,586</u>	<u>\$ 6,799,586</u>	<u>\$ 0</u>

To respond to your questions;

1. **Why were these numbers changed?**

- a. *Invested in capital assets, net of related debt category:* - During the performance of our procedures on net assets during fiscal year 2006, additional information was brought to our attention with respect to the related debt component of this category. The reasons for the changes are listed below.

- i. The RDA has constructed certain capital asset items that it has subsequently conveyed to the City. As such, when preparing the RDA stand alone financials, this related debt is classified as unrestricted since there are no capital assets related to this. However, when consolidating the RDA statements into the City, since the conveyed capital assets are part of the City (reporting entity), the related debt needs to be considered in this category.
 - ii. Loans payable such as SANDAG loans (construction of streets/roads) and Section 108 loans that are also used primarily for construction activities were not included in the schedule calculating the invested in capital assets, net of related debt schedule.
 - b. ***The restricted net assets category:-*** This change was due to the treatment of low-moderate housing funds as restricted. In 2005, restricted net assets for capital projects from low-moderate housing funds were classified as unrestricted net assets. The 2006 classification classifies these out of unrestricted net assets into restricted net assets.
 - c. ***The unrestricted net asset category:-*** The changes in this category was the result of the reclassifications of (a) and (b) above.
2. **Which numbers are correct?**
- a. In total, both of these numbers for net assets are the same and are therefore correct. The restated beginning balances for 2006 are correct.
3. **Are these changes material?**
- a. These changes are not considered material.
4. **Do you believe that this information should have been pointed out to the City Council on March 25, 2008 when this specific item was being discussed? If yes, why wasn't it? If no, why not?**
- a. The effect on the components of net assets is not material to the City CAFR and therefore was not considered to be necessary to bring to the Council's attention.
5. **What other numbers shown in the 2005 CAFR (for 2005) have changed in the 2006 CAFR for 2005?**
- a. No other numbers have changed related to the 2005 CAFR.

6. **Please provide a list of land and properties that are currently included in the restricted net assets including the reason(s) for the restrictions.**

- a. The restricted net asset category does not include land/properties. Usually, this category represents net assets (resources) that have constraints placed on their use that are either
 - i. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments.
 - ii. Imposed by law through constitutional provisions or enabling legislation. Once net assets are used to construct/purchase capital assets, they are re-classified to the "Invested in capital assets, net of related debt" category.

If there any further questions or if you require further clarification, please do not hesitate to contact us.

Very truly yours,



Jim Godsey, *Partner*
Macias Gini & O'Connell LLP

CC: Jay Goldstone, COO
Mary Lewis, CFO
Greg Levin, Auditor-Comptroller